7- Mr Kellenberger

GASB 67& 68 Disclosures

New GASB 67& 68 Accounting and Financial Reporting for Pensions

URS

In 2006, GASB embarked on a project to review its accounting standards for pensions. The resulting project resulted in two new statements (67 and 68) released in June 2012, they encompass a host of reforms pertaining to virtually every aspect of pension accounting.

URS

The proposed accounting changes will not alter the underlying fundamentals; $1,000 owed to a retired employee in ten years under the current standards will remain $1,000 owed in ten years under the new standards.

URS

Disconnect between pension accounting measurements and pension funding measurements.

Employers will record a liability for their proportionate share of the cost-sharing plan's collective net pension liability (NPL) as a liability on their balance sheets, rather than less prominently in the notes of the financial statements.

URS

Employers will be required to use market value of assets to report NPL in their financial statements, unlike the actuarial value of assets URS currently uses to disclose the unfunded pension liability.

Employers will recognize their proportionate share of an actuarially calculated pension expense, which will no longer equal the statutorily required contribution, and it may be very volatile from year to year.

URS

The new employer pension expense will contain the following main components:

Normal cost (annual cost of current service), plus

Interest on total pension liability, plus

Amortization of experience gains/losses, changes in assumptions, and changes in plan benefits, less

Expected return on plan assets.

URS

Will replace most of the current employer disclosures and required supplementary information with information on the new measurement basis.

URS

Expand employer footnote disclosures will include:

Basic information about the pension plans.

Classes of employees covered.

Information regarding pension liabilities, pension expense and deferred outflows and inflows of recourses related to pensions.

Significant assumptions including salary increase, inflation, discount rate, mortality, and experience studies.

Target asset allocations and projected rate of return by asset class.

Sensitivity of the net pension liability to the discount rate.

URS

Require Supplementary Information

Two or three separate schedules are going to be required

1. Schedule of The Net Pension Liability (for ten years)
2. Schedule of Employer Contributions (for ten years)
3. Schedule of changes in Net Pension Liability (for single employer and agent plans only)

URS

In order for employers to comply with new requirements, they will need to recognize their "proportionate share" of the URS net pension liability, as well as most annual changes in the NPL (reported as pension expense) as they occur.

URS

The employer's proportionate share will be based on the employer's long-term contributions relative to the long-term contributions of all employers in the plan (i.e. payroll or actual contributions).

URS

RECOMENDATIONS

It's recommended that employers review their debt covenants for possible violations after the accounting change.

Employer's will need to report their proportionate share of the Net Pension Liability (at market value).

URS

RECOMENDATIONS

It's recommended that you review the reporting changes with your governing body to ensure they understand the new pension expense number vs. the contributions being remitted to URS (disconnect between reporting and funding).

URS

TIMELINE

GASB 67 (Plan's Accounting)
Statement Adoption Fiscal Year Beginning After June 15, 2013

GASB 68 (Employer's Financial Accounting)
Statement Adoption Fiscal Year Beginning After June 15, 2014

URS

URS

Current GASB Standard

GASB 67 and 68 New Standard

Implications

URS

Current GASB Standard
Pension expense reported by employers is equal to the URS contribution rate.

GASB 68 New Standard
Pension expense is the change in net pension liability each year with some deferral on certain items.

Implications
Employers who never had a pension liability on their books will now have to report one.

URS

Current GASB Standard
Unfunded actuarial liability does not impact individual employers' financial statements.

GASB 68 New Standard
Employer is responsible for net pension liability and must show proportionate share on its individual balance sheet.

Implications
Employers go from no liability on their books to potentially large liability. Potential for confusion and misunderstanding by financial statement readers. Real impact is unclear at this time.

URS

Current GASB Standard

Actuarial cost method used by plan for funding calculations is used for ARC (accounting) calculations.

GASB 68 New Standard

All plans must use Entry Age Normal actuarial cost method.

Implications

No real impact for URS as Entry Age Normal already used for valuation.

URS

Current GASB Standard

Expense based on UAL using actuarial value of assets.

GASB 68 New Standard

NPL is calculated using fair market value of plan net assets.

Implications

Will likely add volatility to both the NPL and pension expense.

Current GASB Standard

All projected benefit payments are discounted using one rate – the long term expected investment rate of return.

GASB 68 New Standard

Blended rate consisting of:

1. Investment return assumption
2. Municipal bond rate

Higher rate (assumed rate of return) can be used only for period during which assets are sufficient to cover benefit payments (prior to projected exhaustion date).

Lower municipal bond rate must be used to discount benefit payments after projected exhaustion date.

Implications

Use of lower discount rate would mean higher liabilities and pension expense on employer's financial statements.

Most troublesome for plans with fixed contribution rate or plans contributing less than the full actuarial contribution rate.

Requires a projection of assets to determine exhaustion date if any.

URS

Current GASB Standard

Unfunded liabilities can be amortized over a maximum of 30 years which may be an "open" amortization period

- Unfunded liabilities created by plan changes that affect active liabilities, such as benefit improvements, can be amortized over a maximum of 30 years.
- Unfunded liabilities created by plan changes that affect retirees, such as mortality assumptions, can also be amortized over a maximum of 30 years.

URS

GASB 68 New Standard

Amortization periods will be significantly shorter (average remaining working lifetime of active employees) so cost recognized more quickly.

Actuarial gains and losses and changes in actuarial assumptions will be amortized over the expected remaining working lifetime of active employees.

Investment gains or losses will be amortized over 5 years.

URS

Implications

More volatile pension expense.

Benefit changes may be more difficult to enact since immediate/near term expense will be much higher.

URS

URS

XYZ City
Notes to the Financial Statements
for the Year Ended December 31, 2012

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X

General Information about the Pension Plan

Plan description.

Eligible plan participants are provided with pensions through the Utah Retirement Systems Public Employees Noncontributory (Noncontributory) Retirement System, Public Employees Contributory Retirement System (Contributory), Public Safety Retirement System, the Tier 2 Public Employees Contributory Retirement System, and the Tier 2 Public Safety and Firefighter Contributory Retirement System. The Noncontributory, Contributory, and Tier 2 Public Employees and Public Safety and Firefighters Retirement Systems are a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. The Public Safety Retirement System is a mixed agent and cost-sharing multiple-employer Retirement System. The Tier 2 Public Employees Contributory Retirement System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

Title 49 of the Utah Code grants the authority to establish and amend the benefit terms to the URS Board of Trustees (URS Board). URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 540 E. 200 S, Salt Lake City, Utah 84102 or visiting the website: www.urs.org.

Benefits provided. URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

Summary of Benefits by System

	Noncontributory	Contributory	Public Safety	Tier 2 Contributory Public Employees	Tier 2 Contributory Pubic Safety & Firefighters
Final Average Salary	Highest 3 years	Highest 3 years	Highest 3 years	Highest 5 years	Highest 5 years
Years of	30 years any age	30 years any age	20 years any age	35 years any age	25 years any age
service required	25 years any age*	20 years age 60*	10 years ago 60	20 years any age	20 years age 60
and/or age	20 years age 60*	10 years age 62*	4 years age 65	10 years age 62	10 years age 62
eligible for	10 years age 62*	4 years age 65		4 years age 65	4 years age 65
benefit	4 years age 65				
Benefit percent per year of service	2.0% per year all years	1.25% per year to June 1975 2.00% per year July 1975 to present	2.5% per year up to 20 years 2.0% per year over 20 years	1.5% per year all years	1.5% per year all years

Contributions. As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contribution rates are as follows:

Utah Retirement Systems	Employee Paid	Paid by Employer for Employee	Employer Contribution Rates
January 1 - June 2012			
Contributory System:			
Local Governmental Division Tier1	N/A	6.00%	9.76%
Local Governmental Division Tier2	N/A	N/A	11.92%
Noncontributory System:			
Local Governmental Division Tier1	N/A	N/A	13.77%
Public Safety Retirement System			
Other Division A Contributory Tier 1	N/A	12.29%	15.78%
Other Division A Contributory Tier 2	N/A	N/A	18.79%
Other Divison A Noncontributory Tier 1	N/A	N/A	27.07%
July 1 - December 2012			
Contributory System:			
Local Governmental Division Tier1	N/A	6.00%	12.03%
Local Governmental Division Tier2	N/A	N/A	12.74%
Noncontributory System:			
Local Governmental Division Tier1	N/A	N/A	16.04%
Public Safety Retirement System			
Other Division A Contributory Tier 1	N/A	12.29%	19.08%
Other Division A Contributory Tier 2	N/A	N/A	19.25%
Other Divison A Noncontributory Tier 1	N/A	N/A	27.07%

The required contributions and amounts received for the 2011/2012 fiscal year and the two previous years are as follows:

Year Ended 6/30	employee paid contributions	Employer paid for employee contributions	Employer contributions	Salary subject to retirement contributions
Contributory System:				
Local Governmental Division Tier 1 and Tier 2				
2012	-	206,925	384,289	4,169,261
2011		218,506	307,888	3,641,805
2010		282,515	359,238	4,708,609
Noncontributory System:				
Local Governmental Division Tier 1				
2012	-	-	17,180,992	128,762,429
2011	-	-	15,262,241	121,949,368
2010	-	-	15,391,216	132,229,962
Public Safety System				
Other Division A Contributory Tier 1				
2012	-	37,300	46,484	531,725
2011	-	41,279	45,729	335,878
2010	-	197,970	190,295	1,610,859
Other Division A Noncontributory Tier 1				
2012	-	-	6,685,963	25,992,191
2011	-	-	6,147,115	24,849,710
2010	-	-	9,351,897	40,705,886
Defined Contribution System				
457 Plan				
2012	1,721,428.00			
2011	2,283,659.93			
2010	2,333,533.89			
401(k) Plan				
2012	5,606,925.37	2,022,995		
2011	6,595,189.93	710,870		
2010	7,341,454.43	1,962,263		
Traditional IRA				
2012	12,230.00	-		
2011	6,395.00	-		
2010	-	-		
Roth IRA				
2012	127,644.71	-		
2011	54,410.33	-		

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2012, XYZ City reported a net pension liability of $184,470,680.

	Net Pension Liability
Contributory Retirement System	$ 6,488,725
Noncontributory Retirement System	135,817,458
Public Safety Contributory Retirement System	1,563,493
Public Safety Noncontributory Retirement Sys	40,592,804
Tier 2 Public Employees Contibutory	5,000
Tier 2 Public Safety and Firefighters Contributory	3,200
Total Net Pension Liability	$ 184,470,680

The net pension liability was measured as of December 31, 2011, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2012. The XYZ City's proportion of the net pension liability was based on a projection of the XYZ City's long-term share of contributions to the pension plan relative to the projected contributions of all participating Local Governments. At December 31, 2011, the XYZ City's proportion was 5.88% of the Contributory Retirement System, 14.13% of the Noncontributory Retirement System, 5.38% of the Public Safety Contributory Retirement System, 19.60% of the Public Safety Noncontributory Retirement System, 1.95% of the Tier 2 Public Employees Retirement System, and 26.67% of the Tier 2 Public Safety and Firefighters Retirement System.

For the year ended December 31, 2012, the XYZ City recognized pension expense of $2,395. At December 31, 2012, the XYZ City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,657	$ 142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	–	2,188
Changes in proportion and differences between XYZ City contributions and proportionate share of contributions	747	153
XYZ City contributions subsequent to the measurement date	1,065	–
Total	$ 6,183	$ 2,613

$1,065 reported as deferred outflows of resources related to pensions resulting from XYZ City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2012. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2012	$ (269)
2013	161
2014	217

2015	545
2016	551
Thereafter	1,300

Actuarial assumptions. The total pension liability in the December 31, 20X8 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.75 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

For Local Government Employees and for public safety post-retirement mortality is based on the RP-2000 Combined Mortality Tables for males and females and adjust the tables by reducing the male rates by 20% and the female rates by 15%. .

The actuarial assumptions used in the January 1, 2012 valuation were based on the results of an actuarial experience study for the five year period of January 1, 2005 – December 31, 2010.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Utah Retirement Systems			Long-term	
			expected real	
Asset Class	Target		rate of return	
Global Equities	40%		5.4%	
Domestic fixed income	12%		2.3%	
Global & International Fixed Income	8%		1.3%	
Real Assets (Oil & Gas, Timber, Real Estate)	13%		4.5%	
Private Equity	9%		3.0%	
Absolute Return	18%		2.0%	
Total	100%			

The 7.50% assumed investment rate of return is comprised of an inflation rate of 2.75%, a real return of 5.10%, for a gross return of 7.85%. This is offset by 0.35% for investment and administrative expenses,

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from Local Government XYZ Citys will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the XYZ City's proportionate share of the net pension liability to changes in the discount rate. The following presents the XYZ City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the XYZ City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50)
XYZ City's proportionate share of the net pension liability	$210,000,000	$180,470,680	$150,000,000

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

Payables to the pension plan

[If the XYZ City reported payables to the defined benefit pension plan, it should disclose information required by paragraph 122 of GASB 68.]

Schedule of Required Supplementary Information
Schedule of XYZ City Porportionate Share of the Net Pension Liability
Utah Retirement Systems

	31-Dec-12		
Last 10 Fiscal Years	**Local Govt Contributory**	**Local Govt Noncontributory**	**Tier 2 Contributory Public Employees**
XYZ City proportion of the net penison liability	5.88%	14.13%	1.95%
XYZ City's proportionate share of the net pension liability (asset)	6,488,725	135,817,458	5,000
XYZ City's covered employee payroll	3,448,783	128,762,429	720,479
XYZ City's porportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	188.15%	105.48%	0.69%
Plan fiduciary net position as a percentage of the total pension liability	75.99%	74.98%	91.62%

	31-Dec-12		
	Public Safety Contrib-tory Other Div A	**Public Safety Noncontrib-tory Other Div A**	**Tier 2 Contributory Public Safety & Fire**
XYZ City proportion of the net penison liability	5.38%	19.60%	26.67%
XYZ City's proportionate share of the net pension liability (asset)	1,563,493	40,592,804	3,200
XYZ City's covered employee payroll	303,506	25,992,191	228,219
XYZ City's porportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	515.14%	156.17%	1.40%
Plan fiduciary net position as a percentage of the total pension liability	79.45%	73.97%	88.12%

*** Amounts presented for each fiscal year were determined as of 12/31. A full 10-year schedule will be displayed as it becomes available.**

Schedule of Required Supplementary Information		
Schedule of XYZ City Contributions		
Utah Retirement Systems		
	30-Jun-12	
Last 10 Fiscal Years *		**Tier 1 and Tier2**
	Noncontributory	**Contributory**
Contractually required contribution	38,884,355	1,334,815
Contribution in relation to the contractually required contribution	(38,884,355)	(1,334,815)
Contribution deficiency (excess)	-	-
Covered employee payroll	239,560,578	11,156,187
Contributions as a percentage of covered-employee payroll	16.23%	11.96%
* Amounts Presented for each fiscal year were determined as of 12/31/2011		
Additional years will be presented as they become available		

Notes to Required Supplementary Information

for the Year Ended December 31, 2012

Changes of assumptions.

If there were any changes to actuarial assumptions, they would be reported in this area.